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COMMERCE FOR JANGLIN  
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SUBJECT: BEHIND THE SCENES, MINING TAX DISCUSSIONS BEGIN

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SUMMARY  
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¶1. (SBU) GOB officials and mining company executives have quietly begun discussing tax increases. Industry representatives say the changes will be significant -- on paper, GOB officials are seeking a 50 percent share of before-tax profits -- but far less substantial than the 500 percent hike proposed January 6 by Bolivia's minister of mining. Representatives of U.S.-based Coeur d'Alene and Apex Silver said January 18 that the GOB's proposed tax hikes would adversely affect their operations, potentially forcing each firm to cancel or halt investment. Miners' cooperatives, meanwhile, have expressed staunch opposition to any tax increase and threatened nation-wide road blockades, presenting a significant challenge to the Morales administration. End summary.

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MINING TAX DISCUSSIONS BEGIN  
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¶2. (SBU) Behind the scenes, GOB officials and mining company executives have quietly begun discussing mining tax increases. Coeur d'Alene executive Jim Duff told Econoff January 18 that the GOB clearly wants to raise taxes, suggesting that the administration has little choice but to act in some way on President Morales' frequent promises to "nationalize" the mining sector. Duff said he expected the GOB to move quickly to present new legislation, perhaps within the next two weeks; according to Duff, the GOB is looking for ways to mark President Morales' inaugural anniversary and to honor his much-publicized declarations that 2007 will be the "year of mining."

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## GOB PROPOSES SIGNIFICANT CHANGES

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13. (SBU) Industry representatives say the proposed changes will be significant -- on paper, GOB officials are seeking a 50 percent share of before-tax profits -- but far less substantial than the 500 percent hike proposed January 6 by Minister of Mining Jose Dalence. GOB officials have told the industry's major players -- Apex Silver, Coeur d'Alene, Newmont Mining, and Swiss-owned Glencore -- that they want to eliminate companies' ability to credit the complementary mining tax (CMT) against income taxes; abolish the tax rate cap on the sliding scale currently in place (the scale varies by mineral, imposes different tax rates at different mineral prices, and sets minimum and maximum tax rates); and raise taxes at each level of the sliding scale. To illustrate, gross sales of silver are currently taxed at a minimum rate of three percent at a silver price of \$4/ounce, with rates varying up to a maximum rate of six percent at a silver price of \$8/ounce; with the GOB's proposed changes, tax rates at each price would increase, with taxes potentially rising as high as 20 percent at a silver price of \$21/ounce.

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## COMPANIES SAY THEY MAY LEAVE

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14. (SBU) Representatives of U.S.-based Coeur d'Alene and Apex Silver said January 18 that the GOB's proposed tax hikes would adversely affect their operations, potentially forcing each firm to cancel or halt investment. Coeur d'Alene's Duff told Econoff that the elimination of companies' ability to credit the CMT against income taxes would alone significantly damage profitability; together with proposed tax hikes, the modification could more than double the company's annual tax bill (which includes the CMT, taxes on income and dividend withholdings, and royalties paid to the seven mining cooperatives leasing the project's silver deposits to Coeur d'Alene). Duff reportedly told the mining minister and other GOB officials that new taxes would make it impossible for the firm to recover its capital investment, especially if silver prices fell from today's record highs to their long-term average of \$5/ounce. Duff ultimately told GOB officials he believed tax increases would force Coeur d'Alene's board to suspend the firm's \$130 million San Bartolome silver project; the possibility of cancellation reportedly had some effect, but Duff said he suspected GOB officials would ignore the threat and move blindly ahead.

15. (SBU) Apex Silver CEO Jeff Clevenger echoed Duff's concerns, telling the Ambassador January 18 that the GOB's proposed tax hikes would effectively amount to a 70 percent share of earnings. Company executives reportedly tried to explain the effective tax rate to GOB officials but made little progress, as most officials possessed only a limited understanding of the industry. Executives indicated that Apex would accept a true 50/50 profit split and urged GOB officials to carefully consider the effective impact of proposed tax hikes on the company's ability to realize a satisfactory investment return, lest Apex be forced to halt its \$900 million San Cristobal project. Executives also urged GOB officials to moderate their rhetoric, noting that threats to "nationalize" the mining sector and introduce a 500 percent tax increase had disastrous implications for the company's stock price; according to one executive, Apex lost \$300 million in market capitalization on the mining minister's comments alone. Despite their arguments' relatively limited success, company representatives said they would continue to engage GOB officials.

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## MINERS' COOPERATIVES EXPRESS OPPOSITION

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16. (SBU) Miners' cooperatives, meanwhile, have expressed staunch opposition to any CMT increase and threatened nation-wide road blockades, presenting a significant challenge to the Morales administration. The National

Federation of Miners' Cooperatives immediately rejected proposed tax hikes and called on the GOB to respect existing contracts and honor past promises to seek cooperatives' agreement before changing the industry's tax structure; in response, the GOB announced January 16 that it would begin discussions with mining cooperatives and state mining employees' unions.

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COMMENT  
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17. (SBU) While executives fully expect tax increases, they appear confident that the GOB will avoid extremes. Many believe the GOB's much-hyped "nationalization" of the mining industry will parallel that of the hydrocarbons sector, e.g., that GOB officials will introduce tax increases in lieu of asset expropriations. Industry representatives do not consider the GOB's public statements an indication of the GOB's true intentions; rather, they consider the rhetoric an effective means of alarming companies and forcing a softening of negotiating positions, pointing out that a 50 percent share of before-tax profits suddenly seems acceptable when the alternative is a 500 percent increase.

18. (SBU) Comment continued: Company representatives may be able to accept the inevitability of tax hikes, but many have a difficult time accepting the disconnect between the administration's harmful proposals and GOB officials' public statements recognizing the importance of private investment. By raising mining taxes, the GOB risks losing the investment it claims to want, puts thousands of much-needed jobs on the line, and sets the stage for a potentially damaging confrontation with miners' cooperatives -- unless it placates a once supportive group by exempting them from tax increases.

End comment.  
GOLDBERG